DESCRIPTION OF PROPOSED MODIFICATIONS TO THE PROVISIONS OF THE TAXPAYER REFUND ACT OF 1999

Prepared by the Staff

of the

JOINT COMMITTEE ON TAXATION

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INTRODUCTION

This document,[1] prepared by the staff of the Joint Committee on Taxation, provides a description of proposed modifications to the provisions of the Taxpayer Refund Act of 1999 ("the Taxpayer Refund Act").[2] The Senate Committee on Finance began markup of the Taxpayer Refund Act on July 20, 1999.

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[1] This document may be cited as follows: Joint Committee on Taxation, *Description of Proposed Modifications to the Taxpayer Refund Act of 1999* (JCX-51-99), July 21, 1999.

[2] A description of the Taxpayer Refund Act of 1999 is contained in: Joint Committee on Taxation, *Description of the Taxpayer Refund Act of 1999* (JCX-46-99), July 16, 1999.

DESCRIPTION OF PROPOSED MODIFICATIONS TO THE PROVISIONS OF THE TAXPAYER REFUND ACT OF 1999[3]

III. RETIREMENT AND INDIVIDUAL SAVINGS TAX RELIEF PROVISIONS

A. Individual Savings Provisions

1. Individual retirement arrangements ("IRAs")

The modification would make the following changes:

- Provide that the AGI income limits for deductible IRA contributions are increased by $1,000 ($2,000 in the case of married taxpayers filing a joint return) in 2001 and then in steps up to $2,500 ($5,000 for married taxpayers filing a joint return), with indexing of the limits beginning in 2009.

- Provide that U.S. legal tender coins or coins issued by a State are permitted investments for IRAs, if such coins are traded on a national exchange. The modification would be effective for taxable years beginning after December 31, 1999.

B. Expanding Coverage

The modification would delete the proposal providing that the compensation limit would not apply to SIMPLE 401(k) plans.

The modification would add the following new provisions relating to the top-heavy rules, effective for plan years beginning after December 31, 2000:

- Provide that matching contributions may be taken into account in satisfying the minimum benefit requirement.

- Eliminate the family attribution of stock ownership rule for purposes of determining whether an individual is a key employee by reason of being a 5-percent owner.

- Provide that a safe-harbor 401(k) plan is not a top-heavy plan.

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[3] Item headings are from the *Description of the Taxpayer Refund Act of 1999* (JCX-46-99), July 16, 1999.

C. Enhancing Fairness for Women

The modification would add a new provision providing that employer matching contributions are required to vest at least as rapidly as under a 3-year cliff vesting schedule or a 6-year graded vesting schedule. The modification would be effective for plan years beginning after December 31, 2000.

V. HEALTH CARE TAX RELIEF PROVISIONS

A. Above-the-Line Deduction for Health Insurance Expenses

The above-the-line deduction for health insurance expenses would be modified to provide that the deduction would not apply to certain types of insurance providing only limited coverage, such as vision care insurance, dental insurance, and insurance covering specific diseases. In addition, employer payments for such insurance would not be taken into account in determining whether the employer pays for 50 percent or more of the employee's health insurance.

B. Provisions Relating to Long-Term Care Insurance

The modification would provide that qualified long-term care insurance is a qualified benefit under a cafeteria plan only to the extent that such insurance is treated as medical care for purposes of the itemized deduction for medical expenses.

VI. SMALL BUSINESS TAX RELIEF PROVISIONS

The modification would add a new provision to create Farm and Ranch Risk Management Accounts. The modification would be effective for taxable years beginning after December 31, 2000.

VIII. TAX-EXEMPT ORGANIZATION PROVISIONS

The modification would add a new provision to allow private foundations to increase their holdings in publicly traded voting stock of a corporation received by bequest from 20 percent to 40 percent in 2007 and to 49 percent in 2008 and thereafter. The proposal would be effective for decedents dying after December 31, 2006.

IX. INTERNATIONAL TAX RELIEF

The modification would add the following new provisions:

- Repeal the 90-percent limit on foreign tax credits for the individual and corporate alternative minimum tax ("AMT"). The modification would be effective for taxable years beginning after December 31, 2004.

- Repeal limits on Foreign Sales Corporation tax benefits for the defense products industry. The modification would be effective for taxable years beginning after December 31, 2004.

X. HOUSING AND REAL ESTATE TAX RELIEF

B. Tax Credit for Renovating Historic Homes

The modification would expand the rehabilitation credit for renovating historic homes in the Taxpayer Refund Act by permitting a taxpayer with certified rehabilitation expenditures to enter into a mortgage contract with a bank, in which the bank may claim the rehabilitation credit in exchange for a lower mortgage interest rate or, in the case of certain areas, a reduction in the principal amount of the loan.

XI. MISCELLANEOUS PROVISIONS

The modification would add the following new provisions:

- Clarify the definition of rural airport to include airports that satisfy the present-law 100,000 passenger enplanement limit, but which are within 75 miles of a larger airport and which cannot be reached by road from the smaller airport. The modification would be effective for taxable years beginning after December 31, 1999.

- Allow farmer cooperatives to pay dividends on capital stock without reducing patronage dividends. The modification would be effective for taxable years beginning after the date of enactment.

- Repeal the five-year limitation on treating life insurance companies as includible corporations that may file a consolidated tax return with an affiliated group including non-life insurance companies. The modification would be effective for taxable years beginning after December 31, 2000.

- Modify the provisions relating to personal holding companies to (1) treat all lending or finance businesses of a controlled group of corporations as a single corporation for purposes of an active business safe harbor and (2) modify the definition of lending or finance business. The modifications would be effective for taxable years beginning after December 31, 1999.

- Allow a 50-percent tax credit for the cost of complying with wheelchair accessibility requirements on certain inter-city buses. The modification would be effective for taxable years beginning after December 31, 1999, and before January 1, 2012.

- Accelerate the increase in the deduction for meals for individuals subject to Federal hours of service rules so that the deduction is 80 percent in 2007 and thereafter.

- Allow private activity tax-exempt bonds to be issued to finance the 15 pilot projects eligible for certain innovative financing assistance under the Transportation Equity Act for the 21st Century. The aggregate amount of bonds issued for these projects could not exceed $15 billion. The modification would be effective for bonds issued after December 31, 1999.

XII. EXTENSION OF EXPIRING PROVISIONS

F. Extend and Modify Tax Credit for Electricity Produced by Wind and Closed-Loop Biomass Facilities

The modification would add landfill gas used to produce electricity to the qualified resources for purposes of the section 45 credit. The modification would be effective with respect to facilities placed in service after December 31, 1999, and before July 1, 2004.

XIII. REVENUE OFFSET PROVISIONS

C. Increase Elective Withholding Rate for Nonperiodic Distributions From Deferred Compensation Plans

The provision increasing the elective withholding rate on nonperiodic distributions from deferred compensation plans would be effective with respect to distributions made after December 31, 2000, rather than with respect to distributions made after December 31, 1999.

G. Loophole Closers

7. Prohibited allocations of stock in an ESOP of an S corporation

As under the Taxpayer Refund Act, the provision would apply to ESOPs established by an S corporation after July 14, 1999. In addition, under the modification, in the case of an ESOP established by an S corporation on or before such date, the provision would apply to plan years beginning after December 31, 2000.